

## **Operational Review Task Force Accounts Receivable Review**

### **Accounts Receivable (AR) Team**

State Sponsor – David Von Moll, State Comptroller

Industry Leader – Gena Wade, VP CGI, Ted London, VP CGI

Local Government Leader – Molly Ward, Mayor, City of Hampton

Agency Staff – Chris Harris-Lipford, Sr. Assistant Attorney General, Chief, Division of Debt Collections, Tom Nesbitt, Assistant Attorney General for Financial Law and Government Support

### **Background and Approach**

The State Comptroller recently commissioned CGI to conduct the Non-Tax Collections Strategic Study to evaluate the opportunities and feasibility of improving the collection and management of delinquent non-tax government debts within the Commonwealth. The CGI non-tax collections study (completed in May, 2010) describes existing collection business processes and opportunities for the Commonwealth to improve the net financial yield from its non-tax collections efforts.

The key recommendations of that study were adopted by Governor McDonnell's Commission on Government Reform and Restructuring and are included in Appendix A of this report. Given the substantial amount of work already performed and recommendations made, the general approach of the AR team in conducting this operational review has been to brainstorm for ideas that can support and institutionalize the recommendations made by the Reform Commission.

### **AR Team Recommendations**

**Establish an Ongoing Structured AR Work Group** – The key recommendation made by the AR team is for the Commonwealth to establish an ongoing structured work group comprised of key members from the finance arms of the executive and legislative branches of state government, the OAG, and the Supreme Court of Virginia to clarify the Commonwealth's operating framework governing AR. The AR work group will conduct activities on an ongoing basis to develop a shared vision confirming COV's resolve to enforce debt collection statutes despite potentially negative public reaction to more aggressive debt collections tactics and strengthen AR policies and procedures, interagency coordination, cooperation and accountability that will advance the recommendations made by the Reform Commission. Workgroup activities will include:

**Establish an Accounts Receivable and Debt Collection Reporting Framework** – Identify, strengthen and implement a meaningful and cost effective agency reporting framework to improve transparency and analytics over AR debt and debtor information. Transparency reporting dimensions include debt type, debt age, debt value, collection techniques employed, and clearer differentiation between receivables and delinquent and bad debt.

- Appendix B of this report contains the initial reporting framework research performed by the AR team. The AR team's Industry Leaders compiled and categorized statistics for measuring collection effectiveness and identified two accounts receivable reports prepared by other states that were deemed to be effective. These measures and reports were compared with those used in the COV's existing receivables reporting framework. Gaps and opportunities for improvement are outlined in Appendix B.

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**Develop Agency Accounts Receivable Profiles** – Often the most important collection action occurs before an account becomes delinquent. Agency AR profiles can provide key input towards examining the processes behind the debts, understanding how and why delinquencies occur and evaluating the best courses of action to reduce the incidence of delinquency and overpayment through process change. For example, one of the forms of debt for some agencies is overpayments (e.g., unemployment benefits, medical claims payments, salary overpayments, tuition extensions, billing issues, required guarantees). COV needs to find out how and why initial overpayments occur and work to minimize them.

- Utilize agency reports to identify agency processes/procedures that may lead to accounts receivable and, in particular, bad debt. Work with agencies to update processes and procedures to reduce AR.
  - Develop materials to educate agencies on AR and bad debt – what it is, how to process it in-house, available resources.
- Appendix C of this report contains some initial agency profile information obtained through the AR team's interview with the University of Virginia's (UVa) Medical Center debt collection staff. Noted best practices employed by UVa Medical Center include:
- Gathering financial data at early point of contact with patient--at registration
  - Using initial financial data to determine next steps to work with patient and debt
    - Run through computer models to define by relevant factors, such as balance due, ability to pay, referral to outside collection agency (OCA)
    - Screen for financial assistance or Medicaid
  - Automated review and management of accounts
    - Automated account routing decisions
    - Automated use of state tools, including
      - no fee law suits (bulk suits, submitted to court on disc)
      - state database access
      - debt setoff (weekly reporting and updates)
      - grade/transcript/registration holds (for student debt)
    - Electronic referrals to and updates of OCA accounts
    - Automated production of lawsuit documents by in-house collectors
  - Reporting to credit bureaus
    - OCAs report
    - Credit bureaus pick-up judgment information
    - UVa Medical Center does not report
  - Close management of vendors and in-house collectors

UVa Medical Center collection staff recommended:

- Early access to bank information
  - Clarification of Code § 8.01-220.2 (spousal liability)
  - Expansion of number and type (national, regional, local, boutique) of OCAs available under state contract
- Appendix D contains existing agency profile information reported in the June 30, 2010 Comptroller's Report on Statewide Financial Management and Compliance.

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**Identify the Optimal Role of Local Constitutional Officers** – Local constitutional officers such as Treasurers and Commissioners of Revenue can serve an important role as collection agents for the Commonwealth. Maximizing collections requires field detective work including a capacity to knock on doors, perform research in courthouses, execute liens on cars, boats, machinery and equipment, which local officers could perform.

- This initiative will require research on legal jurisdictional issues to determine the extent of local officer's collection authority, particularly for debts and/or assets of citizens outside their geographical boundaries.

**Refine Reform Commission Recommendations on Consolidation of Non-tax debt Collections Services** – Clarify roles, processes and procedures of existing entities that perform collections for the COV. Modernize technology and ensure use of available state and local data sources are optimized including VEC and DMV databases. Identify and evaluate merits and barriers of consolidation within the Department of Taxation or the Office of the Attorney General Division of Debt Collection. Evaluate options using these dimensions:

- Economies of scale available, including available current technology and practices
- Nature of current legal authority
- Quality of current practices against industry-recognized best practices
- Ease of administration
- Cost of potential consolidation (new staff, new technology, new practices)
- Legal changes required to enable effective consolidation
- Identify and resolve mutual concerns regarding “turf” issues, technology, costs

**Ensure Enforcement of Existing Debt Collection Statutes** – Minimize agency discretion throughout the collection process with particular emphasis on agency referral, write off, discharge and credit bureau reporting responsibilities. Evaluate compliance coverage through current APA audit program and consider including in the Department of Account's financial reporting Quality Assurance Review process or other compliance programs.

- Require debtors to pay collection administrative costs. Implement clear administrative policies and procedures enforcing Code § 2.2-4805, which allows escalating administrative fees supporting collection expenses to be added to all debts incurred after July 1, 2009.

**Review Debt Collection Statutes and Recommend Changes** – Review existing law regarding AR and develop consistent and comprehensive legislation, including short and long-term legislative initiatives to maximize AR collections. Issues include:

- Property damage strict liability
- Centralized docketing of the Commonwealth's administrative and judgment liens
- Consistent statutory treatment of state agencies' AR
- Extended life of Commonwealth's judgments from 20 years to “until paid”
- Clarification of “emergency” regarding spousal liability for medical AR
- Clarification of responsibility for debts of minors
  - Medical bills of minor parent and his/her child
  - Property damage
  - Contracts
- Availability of information on state court websites, particularly without cost to other agencies of the Commonwealth

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- Use of technology and its fruits in litigation
- Corporate debt, particularly
  - Liability of individuals that control corporate assets
  - Liability of technically “new” companies that receive corporate assets but do not assume corporate debt
- Insurance law (medical and liability)
- Enhanced penalties or personal liability for mental health and medical debt against persons who control the assets of patient debtors
- Identify existing laws and policy considerations impacting broadened authority for financial institution records match and professional and drivers license revocation.
- Expansion of existing tax refund and vendor payment offset programs to allow local debt information to be sent to the state for offset.
- Administrative level liens
- Distinctions, if any, between taxes, child support, court fines, and other AR (hospital bills, tuition and fees, fines and penalties, loans, overpayments, property damage, breach of contract, sponsored research, etc.)
- Strict liability for some or all AR (for example, property damage)
- Spousal liability for non-medical debts and for non-emergency medical debts

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### Appendix A – Related Reform Commission Recommendations

## NONTAX DEBT COLLECTIONS

Commonwealth accounts receivable are assets and, as stewards of Commonwealth resources, we owe it to citizens to ensure that all citizens are held accountable for paying non-tax debts to the same extent as taxes. Therefore, the following recommendations were adopted.

**Recommendation:**

*Establish a comprehensive new statewide Outside Collections Agency (OCA) contract to collect receivables of less than \$3,000 that are 60 days past due (Code § 2.2-4806 C.).*

**Recommendation:**

*Leverage multiple OCAs to encourage competition.*

**Recommendation:**

*Establish risk scoring techniques to determine collectability and adjust assignments based on performance.*

**Recommendation:**

*Vary fees according to collectability determination.*

**Recommendation:**

*Employ secondary OCA assignments.*

**Recommendation:**

*Implement benchmarks and performance- based scorecards to evaluate and monitor OCA effectiveness.*

**Recommendation:**

*Adopt policy and statutory changes to improve outside collections agency management.*

Those changes may include:

- Expand active collection of written-off debt. Match written-off inventory against a skip trace and/or employment source on a recurring basis.
- Expand initial case assignment criteria beyond days delinquent and dollar amount. Increase the flexibility of the thresholds for assignment to the Attorney General's Division of Debt Collection and OCAs established by the Debt Collection Act (Code § 2.2-4806). Expand the assignment criteria to include other factors such as debtor/debt type, employer/bank information availability, type of business, and times in collection.
- Authorize administrative wage, property, and bank levies. Utilize the legal authority and tools available for tax obligations including the authority to generate administrative levies without having a judgment in place. Administrative wage levies will be subject to the same maximum portion of disposable earnings subject to levy as contained in Virginia Code § 8.01-512.3 for wage garnishments.

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- Extend professional license revocation authority currently available to DSS Child Support Enforcement to prevent debtor's professional licenses from being renewed and/or revoke outstanding professional licenses.

**Recommendation:**

*Mandate the currently optional policy to require collection fees to be charged to debtors.*

**Recommendation:**

*Consolidate nontax delinquent debt collection resources/functions into a single entity.*

- Reduce redundancy by centralizing common collection functions.
- Establish single point of contact for debtors.
- Streamline and standardize collections workflow processes.
- Facilitate efficiencies through economies of scale.
- Consider merits of outsourcing all or part of shared service center operations.

**Recommendation:**

*Implement a single collection case management system.*

- Leverage cash management workflow and correspondence engines and decision analytics tools.
- Offer web-enabled services for debtors and other stakeholders.

**Recommendation:**

*Improve information sharing and access through coordinated non- tax debt collection management.*

- Integrate systems environment to securely share demographic, skip trace, bankruptcy, and other information from internal and external sources using a data warehouse.
- Identify and resolve internal/external data privacy and security issues.

**Recommendation:**

*Direct the Virginia Department of Accounts, the State Comptroller, and Virginia Department of Taxation to participate in the federal treasury nontax debt setoff program.*

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### Appendix B – Reporting Examples and Recommendations

#### Examples of Best Practices Delinquent Collections Reports

AR Team Industry leaders identified two states that provide periodic reports on the magnitude of their accounts receivable, which although not perfect, are the best reports industry leaders have seen states publicly provide on the condition of their accounts receivables and collection programs. With few exceptions, COV receivable reports are more extensive than these other state reports.

North Carolina: [http://www.ncosc.net/pdfs/AR\\_Report\\_2009\\_Final.pdf](http://www.ncosc.net/pdfs/AR_Report_2009_Final.pdf)

- North Carolina (NC) provides an annual report for receivables as of each year-end, whereas COV reports quarterly. NC exempts Community Colleges, Mental Health Authorities and General Court of Justice, whereas COV has no exemptions. NC reports receivable information by receivable source types and identifies amounts 1-30, 31-60, 61-90, 91-120, and over 120 days past due and total past due as well as total write-offs, whereas COV reports only 1-180, 181-360 and over 1 year past due. NC also identifies the collection costs and shows the number of FTE's associated with the collections efforts by state agency, which COV does not report.

Louisiana: [http://www.doa.louisiana.gov/osrap/library/acct\\_rec/qtrlyrpt122009.pdf](http://www.doa.louisiana.gov/osrap/library/acct_rec/qtrlyrpt122009.pdf)

- Louisiana (LA) reports accounts receivable for all state agencies on a quarterly basis. LA exempts the Judiciary and State Legislature, whereas COV has no exemptions. Like COV, LA reports gross receivables and amounts over 180 days past due as well as uncollectible amounts and receivable amounts being worked "In House," placed with the "Attorney General," "Private Collection Agencies" or "Other" as well as "Amounts under Protest." LA's write-off information exceeds that reported by COV.

#### Statistics to measure collections effectiveness

Below is a suggested set of the high priority statistics for measuring collection effectiveness. These are based on data seen reported in other states and recommendations for a good measurement program. To evaluate performance, a best practice would be to create an annual performance standard for each measure so the actual results can be compared with the expected result. Note that all data should be segregated by debt type in order to evaluate specific program effectiveness.

Category	Recommended Measure	COV Reporting
Magnitude of Receivables and Collections	<b>Annual Delinquent Collections.</b> The first important measure is the actual delinquent receivables collected. Ultimately, the Commonwealth is looking to increase revenues from this area.	COV does not report actual amounts collected but does provide a trend analysis table reporting "Collections as a Percentage of Billings" for the top ten agencies with collectible receivable amounts and also shows the "Statewide Average-- All Agencies" percentage for the current quarter and same quarter reported in the prior two years. COV also reports aggregate collections by quarter, but does not provide the split between current billings and delinquent accounts.

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<b>Category</b>	<b>Recommended Measure</b>	<b>COV Reporting</b>
	<b>Total Delinquent Accounts Receivable.</b> This is a measure of the magnitude of the outstanding receivables. This is important as it will show the available inventory to collect.	COV separately reports all receivables as “Total Past Due”, “1-180 Days Past Due”, “181 to 360 Days Past Due” and “Over One Year” past due for the top 20 state agencies and institutions including TAX and Courts that comprise 99% of the total past due receivables and also reports an aggregate amount for the remaining 71 state agencies and institutions that make up the last 1% of all receivables.
	<b>Total Number of Delinquent Accounts.</b> This is an important measure to evaluate each debt type and determine how the Commonwealth is doing over time. It will also help the Commonwealth determine the average liability.	COV does not report the details for the number of individual accounts that make up the receivable information. This information is retained by the individual agencies.
	<b>Collection Rate.</b> Based on the information listed above, a collection rate can be calculated. This is generally helpful information so the Commonwealth can understand what percentage of outstanding delinquent receivables is in fact collected.	COV presents a trend analysis table that shows “Collections as a Percentage of Billings” for the top ten agencies with collectible receivable amounts and also shows the “Statewide Average -- All Agencies” percentage for the current quarter and same quarter reported in the prior two years.
Aging of AR	<b>Aging Information.</b> Aging information will show how old the delinquent inventory is. Typically for the first year it would be segregated into 0-90 days, 91-180 days, 181-270 days, and 271-365 days. Beyond the first year it would be segregated by year. This information is critical, as debt becomes much less collectable the older it gets.	COV reports Aging information for 1-30, 31-60, 61-90, 91-120, 121-180, 181 days-1 year and over 1 year past due. However, most of the information presented in the Quarterly Report specifically identifies only collectible amounts that are over 60 days past due since that is the threshold that the Code of Virginia establishes for requiring receivables to be referred to the Office of the Attorney General (OAG). COV does not currently segregate the “over 1 year past due” activity into individual years.
Case Closure Evaluation	<b>Collection Doubtful statistics.</b> Often an agency realizes that while an aged debt may be legally collectable, at some point it becomes unlikely to be collected. Often this stage is reached before the case is written off. Where this could be well defined, it would help with the determination of the collection success, and help predict the likely future collections.	COV presents a table (Accounts Receivable Summary) that shows the amounts of Gross Receivables, Allowance for Uncollectible Accounts and amounts deemed Collectible for the top 10 agencies (not including TAX and Courts) that make up approximately 85 of the gross receivables and 83 percent of the collectible receivables as well as aggregate amounts for the remaining agencies/institutions that comprise the remaining 15 percent of the gross receivables and 17 percent of the collectible receivables.



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<b>Category</b>	<b>Recommended Measure</b>	<b>COV Reporting</b>
	<b>Debt Cancellations.</b> A number of agencies will create debts based on partial information. In these cases, when the debtor provides more information, the agency will cancel the debt, or lower the liability to the proper amount. No cash is received for this write-down because the debtor never really owed the money. However, this information is valuable as it can tell how accurate the debts for that debt type are.	COV reports very little information related to debt cancellations. Some reporting is performed showing amounts returned to agencies by Private Collection Agencies, and amounts discharged by the Division of Debt Collection within the OAG and returned to the agencies.
	<b>Write-off Amounts.</b> This would provide the amount written off from the Commonwealths accounts.	COV reports very little information related to write-offs in the Quarterly Report. There is a single row of information in the “Collectible Receivables Over 60 Days Past Due” table that includes Accounts Written-Off.
	<b>Average time to close accounts.</b> This is an important measure to understand for the case closures, how long they were delinquent. This measure would show how quickly the Commonwealth is performing collection activities.	COV does not specifically report the average time to close accounts but presents a trend analysis table “Percentage of Gross Receivables Over 60 Days Past Due” that reports the top ten state agencies and provides a statewide average of collection success for receivables over 60 days past due for the latest three quarters.
	<b>Number of accounts closed by reason</b> (e.g., collected, billed in error, write-off, etc.). This would show which programs are resulting in collections, as opposed to adjustments, write-offs and other reasons. The healthier programs obviously are being closed in the majority of the time due to collections.	COV does not report the reasons why accounts were closed as this information. This information is available only at the individual detailed account level maintained by each agency.
Return on Investment	<b>FTE’s working each debt type.</b> Another important measure is the number of Commonwealth employees who are working to collect each debt type.	COV does not report the FTEs used by an agency for collecting receivables.
	<b>Cost of Collections.</b> This measure would include both the salary costs and indirect costs for the effort to collect the delinquent revenue.	COV does not report the costs incurred for collecting receivables.
	<b>Ratio of Collections Received to Cost.</b> This will show the ratio of benefits to cost, showing which programs could use additional budget because they are performing very well, and which other ones should consider new approaches because the return on investment does not justify the effort. This would assure that the Commonwealth is not spending \$5 to collect \$3 (for example).	COV does not report the ratio of collections to cost.

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<b>Category</b>	<b>Recommended Measure</b>	<b>COV Reporting</b>
Specific process effectiveness	<b>Number of Involuntary Collection Actions</b> (e.g., Liens, Wage Garnishments, and Bank Levies). A good measure to show which debt types require these very strong collection actions.	COV does not generally report information related to number of involuntary collection actions. Amounts collected year to date by the Comptroller's Debt Setoff Program are reported.
	<p>Private Collection Agency Statistics</p> <ol style="list-style-type: none"> <li>1. <b>Percentage of Inventory Assigned to PCA's.</b> This statistic will show the extent to which the program relies on Private Collection agencies for collection work.</li> <li>2. <b>Average age of accounts referred to PCA.</b> This statistic will show how quickly the department is able to move their cases through their collection process to the point when the case is assigned to a PCA. However, it should be noted that if this is too fast, it suggests the department does not have internal processes to collect the money without PCA support.</li> <li>3. <b>Collection Rate for PCA's (dollars and accounts).</b> This statistic is used to measure the effectiveness of the PCA program.</li> </ol>	COV reports "Collectible Receivables Over 60 Days Past Due (not including TAX and Courts)" in a table that shows account balances for the quarter that have been sent to a private collection agency. The table also shows amounts sent to the OAG and also being worked In-House. The table does not show percentages.

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### **Appendix C – Agency Profile Information**

#### **UVa Medical Center's Debt Collection**

**UVa's Medical Center (MC) has an outstanding record for collecting bad debt.**

- For FY-09 and FY-10, the UVa Medical Center's net bad debt ( \$37.0 million) was under 1 percent. ( Based upon \$2 billion in gross patient revenues)
- Information on hospital receivables is published in the Hospital Accounts Receivable Analysis (HARA). The HARA publication cites any hospital with a net bad debt of 3.03 percent of gross patient revenues as a "superior performing hospital."
- UVa's net bad debt percentage is 70 percent better than the HARA rate for a "superior performing hospital".
- For FY 09 and FY10, UVa Medical Center collected over 50 percent (\$18.6 million) of its bad debt. Prior to 2002, select portions of UVa's bad debt (high dollar accounts and settlements) were handled by the Attorney General's office. The last year it was under the AG, the recovery rate was 6 percent.

**The UVa Medical Center uses a variety of effective ways to collect bad debt.**

If it is determined that the debt will be difficult to collect, the Medical Center uses two outside collection agencies. These agencies have an average collection rate of 7 1/2 percent. The Medical Center's fee arrangement is contingent and therefore paid only if and when the agency generates a recovery.

Most of the bad debt cases are worked internally. There are four methods which have proven to be successful:

1. Individuals employed by the Medical Center conduct financial screens to determine if uninsured patients are eligible for Medicaid. The MC collected approximately \$39 million in FY-10 through this process. It should be noted that these individuals have no insurance and without Medicaid their debt would likely be uncollectible.
2. The Medical Center has built specialized programming to interact with the State's Tax Offset program to collect approximately \$3.2 million per year.
3. The Medical Center also employs staff who files — 100-150 suits per week in the Albemarle General District Court. By filing suit, the Medical Center gains the ability to garnish wages and bank accounts. In most cases, however, an individual realizes that the Medical Center means business and they want to negotiate a settlement or arrange a payment plan. In the few cases where the individual contests the suit, the Medical Center turns the case over to the Attorney General's Office to handle the trial. The volume of these trials is typically no more than 50-60 per year which represents

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only about 1% of the total suits filed by the Medical Center.

4. For high dollar balances (>\$15,000) requiring an attorney to issue suit in the Circuit Court, the Medical Center has retained the services of a Winchester based law firm that specializes in debt collection with attorneys admitted in both Virginia and West Virginia. As with the collection agencies denoted above, the firm receives payment on a contingency basis only when a recovery is actually received. Due to the Medical Center's volume, the negotiated contingency rate is less than half of what ordinary contingency rates are for attorneys.

### **Conclusion**

As the above points indicate, the Medical Center's debt collection operation is a complex multi-faceted operation. All components of this operation are centrally managed on-site by an attorney. There are a number of interdependencies that are woven together to assure appropriate handling and techniques. The success of the operation is amply demonstrated by the numbers, and given the size of these numbers there would be significant financial risk to the Medical Center associated with any contemplated changes.

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### Appendix D – Excerpt from the Comptroller’s June 30, 2010 Quarterly Report on Statewide Financial Management and Compliance: **Accounts Receivable**

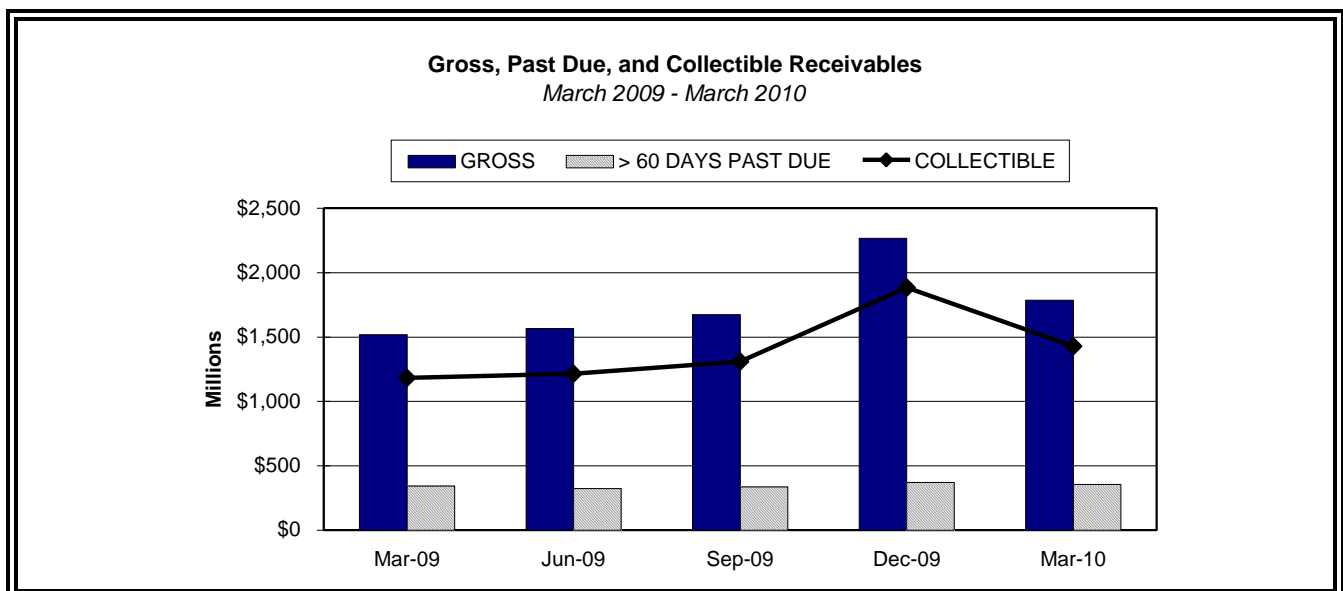
The *Code of Virginia* § 2.2-4800 et seq. requires the Department of Accounts, along with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. In order to carry out this responsibility, DOA has issued policies and procedures on accounting, collecting, reporting, and writing off accounts receivable. In addition, DOA provides technical assistance to agencies and institutions and uses statistical analyses and audit reports to monitor the on-going effectiveness of agencies in managing their accounts receivable.

In an effort to present more meaningful information, DOA continues to exclude data from the tables (except for the final table on past due receivables) from the Department of Taxation, consisting largely of statutory assessments and non-filers assessments, and the circuit and district courts, which report judgments and fines with extremely low collection statistics.

Commonwealth agencies and institutions reported adjusted gross receivables of \$1.78 billion at March 31, 2010, with \$1.43 billion considered collectible. Receivables over 60 days past due as of March 31, 2010, totaled \$355.0 million. Of that amount, \$19.7 million was placed with private collection agencies, \$30.9 million was placed with the Division of Debt Collection and \$304.4 million was retained in-house for additional collection efforts.

It is important to note that the adjusted state receivables largely consist of unemployment taxes, tuition and fees, and billings for several indigent care programs, which present numerous special challenges in collection. “Trade receivables” typical of the private sector, which are generated by billings for the provision of goods and/or services, make up only a small portion of the state’s receivables.

Further, the majority of the significant outstanding receivable balances have statutory or other restrictions specifying the distribution of any collections. The collection of the outstanding receivable balances would not provide additional resources to fund the Commonwealth’s operations.



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As of March 31, 2010, agencies expected to collect \$1.43 billion (80 percent) of the \$1.78 billion adjusted gross receivables. About 2 percent is due to the General Fund, primarily for benefit recoveries and sales of permits.

The balance, which contains Medicaid penalties that are no longer revertible, is due to several nongeneral funds.

### Collectible Receivables by Fund

*Not Including Circuit Courts, District Courts, or Department of Taxation*

*As of March 31, 2010*

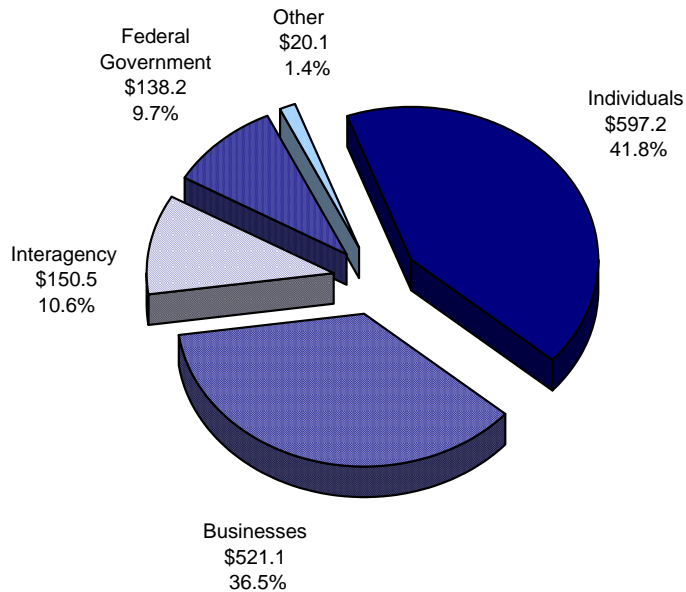
<b>Fund</b>	<b>Source</b>	<b>Amount</b>	<b>Percent</b>
<b>General Fund</b> <b>2%</b>	Medicaid - Current Recoveries	\$ 10,907,609	40%
	Social Services	3,229,972	11%
	Labor and Industry Inspections	712,660	3%
	State Police Permits	1,586,235	6%
	Corrections	1,138,946	4%
	Other	8,918,431	32%
	Subtotal	26,493,853	96%
	Interagency Receivables	1,050,180	4%
	<b>Total General Fund Collectible</b>	<b>\$ 27,544,033</b>	<b>100%</b>
<b>Nongeneral Funds</b> <b>98%</b>	Medicaid - Dedicated Penalty Fees	\$ 50,076,585	4%
	Medicaid - Federal Reimbursements	2,870,463	1%
	Unemployment Taxes *	353,170,084	25%
	Transportation	85,250,980	6%
	Child Support Enforcement	123,885,489	9%
	Federal Government	26,187,561	2%
	DBHDS Patient Services	28,704,686	2%
	Hospital	228,748,345	16%
	Enterprise	73,994,590	5%
	Higher Education	227,608,754	16%
	Other	49,547,443	4%
	Subtotal	1,250,044,980	90%
	Interagency Receivables	149,461,507	10%
	<b>Total Nongeneral Fund Collectible</b>	<b>\$ 1,399,506,487</b>	<b>100%</b>
<b>All Funds</b>	<b>Grand Total</b>	<b>\$ 1,427,050,520</b>	<b>100%</b>

\* Note: The Virginia Employment Commission provides Unemployment Taxes Information.

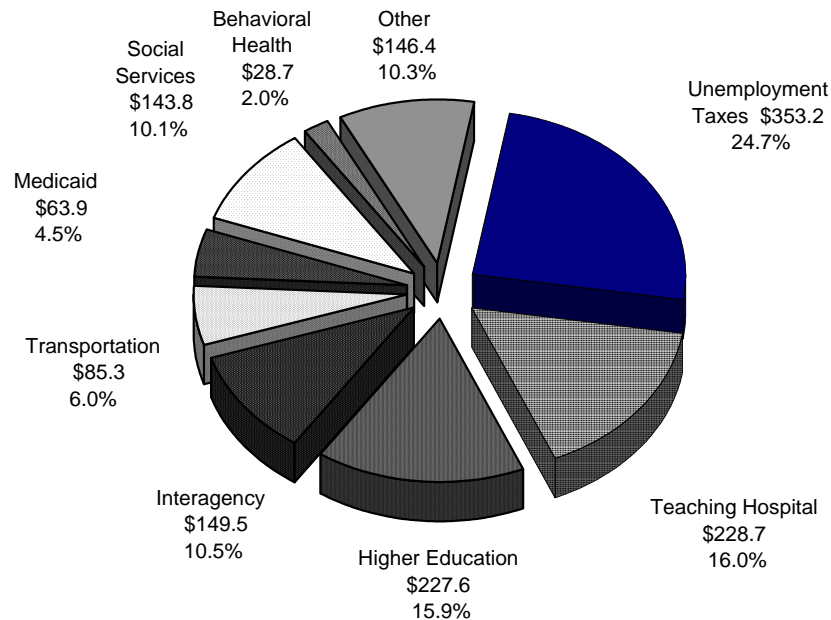
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## **Summary of Receivables by Source**

**Sources of Collectible Receivables by Debtor**  
(dollars in millions)  
*As of March 31, 2010*



**Sources of Collectible Receivables by Type**  
(dollars in millions)  
*As of March 31, 2010*



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Not counting Taxation and the Courts, ten agencies account for 85 percent of the Commonwealth's adjusted gross and 83

percent of the adjusted collectible accounts receivable balances.

### Accounts Receivable Summary *Not Including Circuit Courts, District Courts, or Department of Taxation* Quarter Ended March 31, 2010

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
Virginia Employment Commission	\$ 397,296,406	\$ 39,821,449	\$ 357,474,957
University of Virginia Medical Center	299,117,966	17,721,929	281,396,037
Department of Social Services	374,044,480	223,548,305	150,496,175
Department of Transportation	81,725,620	1,432,843	80,292,777
Department of Medical Assistance Services	99,808,254	35,930,970	63,877,284
State Lottery Department	60,852,918	-	60,852,918
Virginia Polytechnic Institute and State University	61,967,577	2,522,074	59,445,503
University of Virginia - Academic Division	50,652,862	1,779,409	48,873,453
Virginia Information Technologies Agency	42,679,349	-	42,679,349
Virginia Commonwealth University	42,251,876	4,074,567	38,177,309
<b>Total</b>	<b>\$ 1,510,397,308</b>	<b>\$ 326,831,546</b>	<b>\$ 1,183,565,762</b>
All Other Agencies	274,126,900	30,642,142	243,484,758
<b>Grand Total</b>	<b>\$ 1,784,524,208</b>	<b>\$ 357,473,688</b>	<b>\$ 1,427,050,520</b>

In addition to internal administrative collection efforts, agencies have three other collection tools available to them. These are computerized matching and debt setoff programs at the Departments of Taxation, Lottery and Accounts, private collection agencies, and the Attorney General's Division of Debt Collection.

DOA requires state agencies and institutions to use the computerized matching and debt setoff programs for receivables that are 30 days or more past due. DOA also requires the use of private collection agencies on delinquent accounts that are 60 days or more past due which are not sent to the Attorney General's Division of Debt Collection.

The Office of the Attorney General requires state agencies and institutions to send accounts of \$3,000 or more and 60 days or more past due to the Division of Debt Collection.

These additional collection tools recovered \$78.4 million during the quarter ended March 31, 2010. The Division of Debt Collection contributed \$1.5 million. Private collection agencies collected \$2.6 million, and the debt setoff programs (Tax, Comptroller's and Lottery) collected \$74.3 million.

Private collection agencies returned \$6.7 million of accounts to agencies, and the Division of Debt Collection discharged \$2.5 million of accounts and returned \$2.2 million of accounts to agencies.



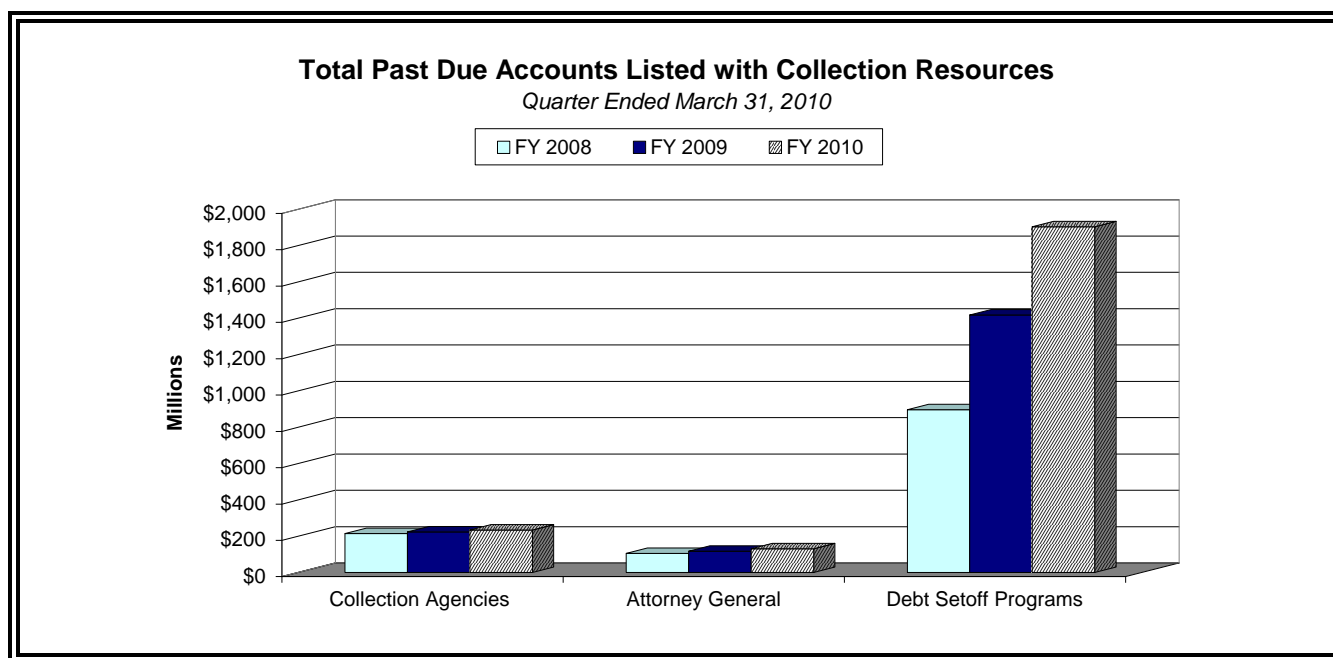
# **Operational Review Task Force Accounts Receivable Review**

## **Collectible Receivables Over 60 Days Past Due**

*Not Including Circuit Courts, District Courts or the Department of Taxation  
As of March 31, 2010*

Agency	Total Over 60 Days	With Collection Agency	With Attorney General	Retained by State Agency
Department of Social Services	\$ 128,863,260	\$ 2,610	\$ -	\$ 128,860,650
Virginia Employment Commission	46,400,696	8,701,753	9,662,340	28,036,603
University of Virginia Medical Center	38,531,198	-	-	38,531,198
Department of Medical Assistance Services	28,494,136	701,010	1,121,672	26,671,454
Department of Transportation	21,986,906	1,685,160	11,312,149	8,989,597
Department of Behavioral Health and Developmental Services	12,245,726	-	-	12,245,726
Virginia Information Technologies Agency	11,126,442	-	-	11,126,442
University of Virginia - Academic Division	10,258,332	307,734	44,247	9,906,351
Virginia Commonwealth University	7,076,581	8,345	403,649	6,664,587
Department of General Services	5,862,594	-	-	5,862,594
<b>TOTAL</b>	<b>\$ 310,845,871</b>	<b>\$ 11,406,612</b>	<b>\$ 22,544,057</b>	<b>\$ 276,895,202</b>
All Other Agencies	44,162,754	8,298,572	8,370,572	27,493,610
<b>TOTAL OVER 60 DAYS</b>	<b>\$ 355,008,625</b>	<b>\$ 19,705,184</b>	<b>\$ 30,914,629</b>	<b>\$ 304,388,812</b>
Uncollectible Amounts Placed for Collection, Including Accounts Written Off	2,492,203,783	214,243,655	99,713,480	2,178,246,648
<b>TOTAL COLLECTION EFFORTS</b>	<b>\$ 2,847,212,408</b>	<b>\$ 233,948,839</b>	<b>\$ 130,628,109</b>	<b>\$ 2,482,635,460</b>

Note: The additional amounts retained by agencies are placed for collection with several debt setoff collection programs.



**Operational Review Task Force  
Accounts Receivable Review**

***Comptroller's Debt Setoff (CDS) Program***

CDS is one of the debt setoff programs used by agencies to collect past due accounts receivable owed to the State, primarily by businesses and individuals acting in a business capacity. Under CDS, a payment made by the State to the debtor may be

withheld, in full or in part, to satisfy the debt owed to the State. CDS collected \$2.6 million through the fourth quarter of FY 2010. Please note the amount reported is before any refunds.

***Receivable Trend Data***

One way to measure an agency's effectiveness at collecting its accounts receivable is to look at how efficient collection procedures are on accounts that are more than 60 days past due. The following

table looks at trend percentages of receivables over 60 days past due as a percentage of gross receivables for the agencies with the largest amounts over 60 days past due.

**Percentage of Gross Receivables Over 60 Days Past Due**

<b>Agency</b>	<b>Percent at 3/31/10</b>	<b>Comparative</b>	
		<b>Percent at 12/31/09</b>	<b>Percent at 9/30/09</b>
Department of General Services	52%	55%	23%
Department of Social Services	34%	35%	35%
Department of Medical Assistance Services	29%	33%	36%
Department of Transportation	27%	53%	26%
Virginia Information Technologies Agency	26%	23%	21%
University of Virginia - Academic Division	20%	4%	6%
Virginia Commonwealth University	17%	3%	9%
University of Virginia Medical Center	13%	15%	10%
Virginia Employment Commission	12%	48%	44%
Department of Behavioral Health and Developmental Services	27%	25%	24%
<b>Statewide Average - All Agencies</b>	<b>20%</b>	<b>16%</b>	<b>20%</b>

## Operational Review Task Force Accounts Receivable Review

Another way to measure agency debt collection effectiveness is to compare amounts collected to amounts billed. The table below presents trend percentages for the ten agencies with the highest collectible accounts receivable balances. In total, these ten agencies are responsible for 83 percent of the Commonwealth's collectible receivables balances, as adjusted to exclude the Department of Taxation and the circuit and district courts. Percentages over 100 percent indicate the collection of prior balances as well as current billings.

In evaluating these percentages it is important to understand that the percentages may fluctuate based on how the different agencies conduct their business and the cycles that those businesses typically follow.

The statewide average of 98 percent indicates that for every \$1 billed during the quarter ended March 31, 2010, the state collected 98 cents. This rate is two percent less than last year, and five percent less than the March 31, 2008 quarter.

### Collections as a Percentage of Billings

Agency	Percent 3/31/2010	Comparative	
		Percent 3/31/2009	Percent 3/31/2008
Virginia Commonwealth University	269%	257%	256%
University of Virginia - Academic Division	226%	188%	177%
Virginia Polytechnic Institute and State University	223%	226%	210%
Virginia Information Technologies Agency	101%	100%	95%
Department of Social Services	96%	90%	95%
State Lottery Department	93%	96%	113%
Department of Transportation	84%	95%	92%
Virginia Employment Commission	52%	41%	35%
Department of Medical Assistance Services	39%	43%	70%
University of Virginia Medical Center	31%	29%	35%
<b>Statewide Average - All Agencies</b>	<b>98%</b>	<b>100%</b>	<b>103%</b>

## **Operational Review Task Force Accounts Receivable Review**

### **Commonwealth Receivables Analysis**

The following individual accounts receivable narratives describe agency collection programs and related trend information:

#### ***Department of Medical Assistance Services (DMAS)***

DMAS is responsible for overseeing service delivery to eligible recipients, and reviewing and auditing the providers of a variety of federally and State funded health care programs. These programs include Medicaid, Family Access to Medical Insurance Security (FAMIS), and State and Local Hospitalization (SLH) programs.

DMAS' collectible accounts receivable of \$63.9 million at March 31, 2010, is a \$1.6 million increase over the \$62.3 million reported at March 31, 2009. Over the same period, total past due receivables of \$36.1 million have decreased by \$8.8 million.

#### ***University of Virginia Medical Center (UVAH)***

UVAH provides primary and specialty health care for Central Virginia by operating a 500 bed hospital, a School of Medicine, and over twenty research centers. The majority of its receivables consist of Medicaid and Medicare reimbursements and payments from third party insurers.

UVAH collectible receivables of \$281.4 million at March 31, 2010, were a \$42.4 million increase from the \$239.0 million reported the previous year. Past due receivables increased by \$8.4 million to \$111.8 million at March 31, 2010.

#### ***Virginia Employment Commission (VEC)***

VEC is responsible for paying unemployment insurance benefits to workers who have become unemployed. VEC also provides employment assistance for job seekers and analyzes and reports on a variety of labor market information.

VEC collectible receivables were \$357.5 million at March 31, 2010, an increase of \$139.5 million from the previous year. Total past due receivables were \$50.8 million, a \$10.3 million increase over last year. VEC collects employer tax receivables in-house. The Attorney General's Office is involved in contested cases. Unemployment benefit overpayments to individuals are referred to private collections agencies after in-house efforts have produced no results and when debtors have left the state.

#### ***Virginia Information Technologies Agency (VITA)***

VITA is the state's central information technologies provider. VITA operates the information technology infrastructure for much of State government, providing both hardware and services. VITA also procures hardware and software for agencies and institutions of higher education.

VITA reported collectible receivables at March 31, 2010, of \$42.7 million, which is a decrease of \$4.2 million reported in the previous year. Most of these receivables are due from other state agencies. As of March 31, 2010, \$11.1 million was over 60 days past due, an increase of \$2.5 million from the previous year.

## **Operational Review Task Force Accounts Receivable Review**

### ***State Lottery Department (SLD)***

The State Lottery Department is an independent agency responsible for operating the State's on-line lottery and scratch-off games and actively participates in three multi-state games, Mega Millions, PowerBall and Win for Life. Retail merchants who sell the State Lottery games are covered by surety bonds and deposit Lottery receipts into bank accounts approved by the State Treasurer.

At March 31, 2010, the State Lottery reported net receivables of \$60.9 million, a \$6.5 million increase from the previous year. Billings decreased by \$681,530 and collections decreased by \$6.7 million during the March 31, 2010 quarter when compared to the March 31, 2009 quarter. At March 31, 2010, the State Lottery had \$126,401 that was over 60 days past due. The total amount owed is covered by surety bonds.

### ***Department of Education (DOE)***

Education acts as the pass-through agency for state and federal education funds and determines the allocation of funds to local school divisions under the Direct Aid to Public Education Program. Localities file expenditure reimbursement requests with the Department who then reviews the claims for accuracy and correctness. Eligible expenditures under federal grants are paid by DOE, which then draws down the money from the U. S. Department of Education.

At March 31, 2010, DOE had no accounts receivable due from the Federal government under Direct Aid to Public Education. This is consistent with the prior year.

### ***Virginia Polytechnic Institute and State University (VPISU)***

VPISU is one of the Commonwealth's largest universities and one of two land grant institutions in the state. At March 31, 2010, the University reported net collectible receivables of \$59.4 million, a \$4.9 million decrease over the prior year. At the same time, total past due receivables of \$7.7 million decreased by \$1.2 million over the prior year.

The University uses a variety of collection methods to encourage payments. At March 31, 2010, VPISU had \$3.5 million of accounts over 60 days past due. \$1.5 million was placed with the Attorney General's Division of Debt Collection, another \$937,777 was placed with private collection agencies and \$1.7 million was subject to additional in-house efforts.

### ***Department of Behavioral Health and Developmental Services (DBHDS)***

DBHDS operates 16 facilities around the State to treat patients. These facilities account for nearly all of the department's receivables, consisting primarily of fees due for patient care. DBHDS bills third party insurers and patient assistance programs such as Medicare and Medicaid whenever they are available. In other cases, the Department looks to responsible family members and tangible real and personal property for payment. When property is located, a lien is filed in the local courts so that when estates are liquidated, DBHDS can recover some of the costs involved in a patient's care.

## **Operational Review Task Force**

### **Accounts Receivable Review**

At March 31, 2010, the Department reported collectible receivables of \$28.7 million, a \$343,915 decrease over the previous year. \$18.5 million was past due, with \$12.2 million being over 60 days past due. Total past due receivables increased by \$2.5 million over the year, and accounts over 60 days past due increased by \$2.9 million. At March 31, 2010, the Department had a total of \$5.7 million of accounts placed with the Attorney General and \$622,350 listed in Taxation's Debt Setoff Programs.

#### ***Department of Transportation (VDOT)***

Depending upon how a particular road construction project is funded, VDOT receives payments from a variety of sources. These include the federal government, local government units, and for damage repairs, responsible parties or their insurers. The majority of VDOT receivables stem from these sources.

At March 31, 2010, VDOT reported \$80.3 million of collectible receivables, an increase of \$31.2 million from the prior year. VDOT also reported \$39.1 million total past due and \$22.0 million being over 60 days past due. Past due receivables increased by \$4.8 million over the year, while receivables over 60 days past due decreased by \$4.5 million. VDOT reports that the large majority of the accounts over 60 days past due continue to be amounts owed by cities, counties and towns that are participating on long-term construction projects with the department and where the local fund shares are provided by local debt financing.

VDOT reported placing \$11.3 million of their accounts over 60 days past due with the Attorney General's Division of Debt Collection, and \$1.7 million with private collection agencies.

#### ***Department of Social Services (DSS)***

Social Services provide financial assistance to eligible individuals and families through 121 local departments of social services. The assistance programs include the Temporary Assistance for Needy Families (TANF), Medicaid, Food Stamps, and Community Services Block Grants. In addition to the assistance programs, DSS is the federally - mandated state agency to provide child support enforcement assistance. Child support paid for children receiving money from an assistance program is required to be paid to reimburse the federal and state funds which provide the assistance. Overpayments of assistance benefits from ineligible participants must also be repaid to the originating funds. Receivables due from the Federal government usually are the Federal share of assistance payments and allowable cost recoveries made through the local offices during the preceding month.

At March 31, 2010, DSS reported gross receivables of \$374.0 million, an allowance for doubtful accounts of \$223.5 million and collectible receivables of \$150.5 million. Past due receivables totaled \$130.9 million, of which \$128.9 million was over 60 days past due.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for \$325.2 million (87 percent) of the gross receivables, \$201.4 million (90 percent) of the allowance for doubtful accounts and \$123.9 million (82 percent) of the collectible receivables.

From March 31, 2009, to March 31, 2010, gross receivables decreased \$1.5 million and collectible receivables decreased by \$3.9. Total past due receivables increased by \$748,846 and receivables over 60 days past due increased by \$1.1 million.

## **Operational Review Task Force Accounts Receivable Review**

### ***Department of Rail and Public Transportation (DRPT)***

DRPT is responsible for overseeing Virginia's railroads, providing funding and project resources for public transportation, and researching feasible alternatives for commuters. DRPT works closely with VDOT, the railroads, local governments, the Washington Metropolitan Area Transit Authority, and the Federal Transit Authority.

At March 31, 2010, DRPT had gross and net receivables of \$3.8 million. The majority of this money is due via an interagency transfer from VDOT. DRPT had no past due receivables at March 31, 2010.

### ***Virginia Commonwealth University (VCU)***

VCU, based in Richmond, offers 211 degree programs to over 32,000 students in a variety of fields ranging from accounting to pharmacy at both undergraduate and graduate levels.

At March 31, 2010, VCU had \$38.2 million of collectible receivables, an \$8.0 million increase from March 31, 2009. Total past due accounts were \$7.7 million, a \$669,455 increase from March 31, 2009. Accounts over 60 days past due (\$7.1 million) increased by \$1.3 million from the prior year. Billings increased by \$959,651 to \$74.3 million and collections increased by \$11.6 million to \$199.9 million for the March 31, 2010 quarter, when compared to the March 31, 2009 quarter.

## Operational Review Task Force Accounts Receivable Review

The following table is prepared to present the March 31, 2010, aging information in conformity with the provisions of the *Code of Virginia* § 2.2-603.E.(ii).

Commonwealth's total \$3.0 billion past due accounts receivable at March 31, 2010. Another 18 agencies accounted for 17 percent (\$501.7 million), leaving 71 other agencies to comprise the last one percent at \$33.0 million.

Taxation and the Circuit and District Courts accounted for 82 percent (\$2.47 billion) of the

### Agencies with the Largest Volume of Past Due Receivables

As of March 31, 2010

Agency	Total Past Due	1 to 180 Days Past Due	181 to 360 Days Past Due	Over One Year
Department of Taxation	\$ 1,889,758,625	\$ 214,655,001	\$ 258,079,959	\$ 1,417,023,665
Localities' Circuit and District Courts	575,944,684	33,616,621	70,183,027	472,145,036
<b>Total - Taxation Assessments and Court Fines and Fees</b>	<b>\$ 2,465,703,309</b>	<b>\$ 248,271,622</b>	<b>\$ 328,262,986</b>	<b>\$ 1,889,168,701</b>
<b>All Other Large Dollar Agencies:</b>				
Department of Social Services	130,878,917	6,243,394	6,229,704	118,405,819
University of Virginia Medical Center	111,778,573	97,229,110	8,099,422	6,450,041
Virginia Employment Commission	50,778,006	14,064,056	11,548,475	25,165,475
Department of Transportation	39,064,941	24,906,209	1,621,641	12,537,091
Department of Medical Assistance Services	36,123,548	11,765,316	4,200,874	20,157,358
Department of Health	23,631,085	22,178,416	265,162	1,187,507
Department of Behavioral Health and Developmental Services	18,451,614	15,033,010	9,803	3,408,801
Virginia Information Technologies Agency	15,121,991	6,998,309	3,602,134	4,521,548
University of Virginia - Academic Division	14,083,391	10,901,333	2,511,933	670,125
State Corporation Commission	11,408,054	10,552,750	764,215	91,089
Virginia Community College System	9,509,290	7,519,375	1,087,544	902,371
Virginia Polytechnic Institute & State University	7,741,171	5,468,276	1,125,138	1,147,757
Virginia Commonwealth University	7,685,241	3,307,391	1,556,257	2,821,593
Department of General Services	7,245,551	2,336,814	3,168,455	1,740,282
George Mason University	6,348,890	5,188,476	1,100,824	59,590
Department of Conservation & Recreation	4,895,535	4,881,025	4,260	10,250
Virginia Workers' Compensation Commission	3,520,374	708,699	1,176,799	1,634,876
Department of State Police	3,447,129	1,879,744	537,919	1,029,466
<b>Total - Largest Dollar Volume Agencies</b>	<b>\$ 501,713,301</b>	<b>\$ 251,161,703</b>	<b>\$ 48,610,559</b>	<b>\$ 201,941,039</b>
All Other Agencies	32,958,922	23,623,083	3,438,609	5,897,230
<b>Grand Total Past Due Receivables</b>	<b>\$ 3,000,375,532</b>	<b>\$ 523,056,408</b>	<b>\$ 380,312,154</b>	<b>\$ 2,097,006,970</b>